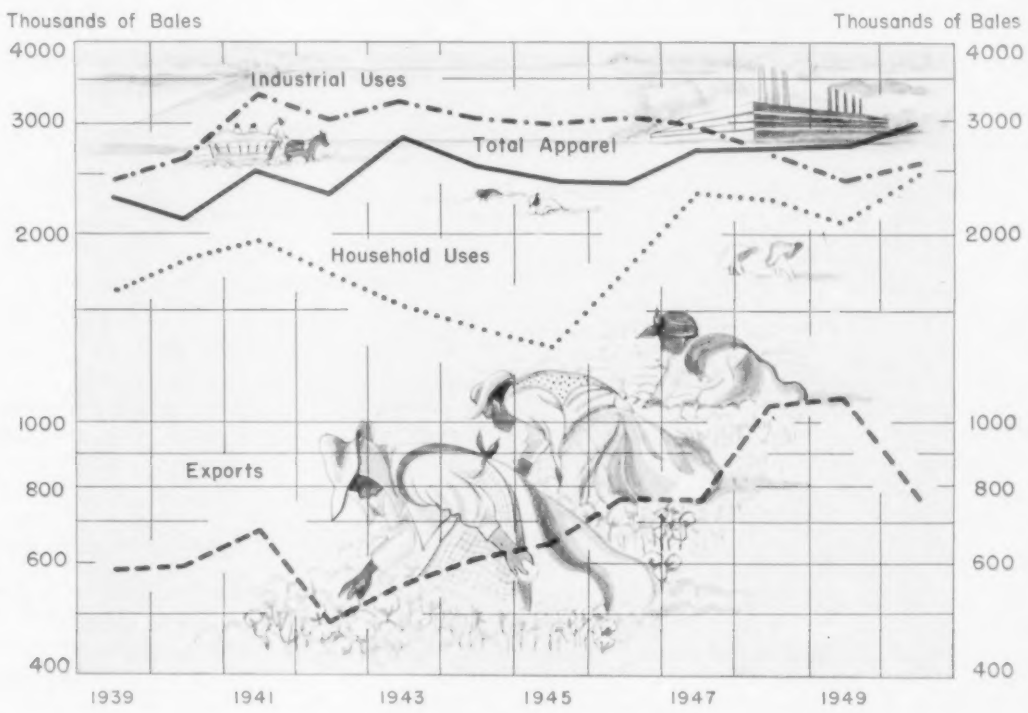
FEDERAL RESERVE BANK OF RICHMOND

Monthly Review

July 1952

CLUES TO COTTON'S FUTURE



Cotton consumption is still growing as the above chart and article beginning on page 3 indicates. Apparel and house-hold usages appear likely to more than offset expected declines in industrial consumption in the next few years.

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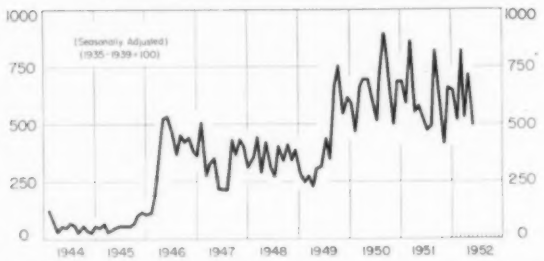
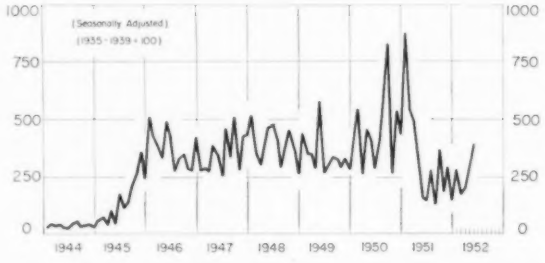
FIFTH DISTRICT TRENDS

BUILDING CONTRACT AWARDS-RESIDENTIAL



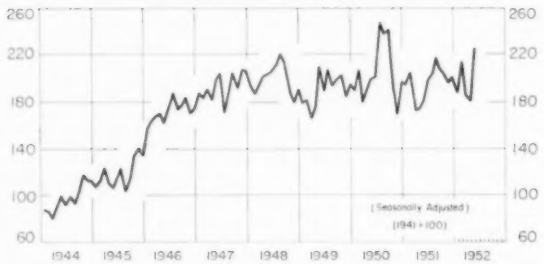
Residential construction continues to run at the boom level but contract awards for residences in May dropped 31% (adjusted) from April and were 6% below a year ago. The chief drop was in apartments and hotels.

COMMERCIAL CONSTRUCTION CONTRACTS



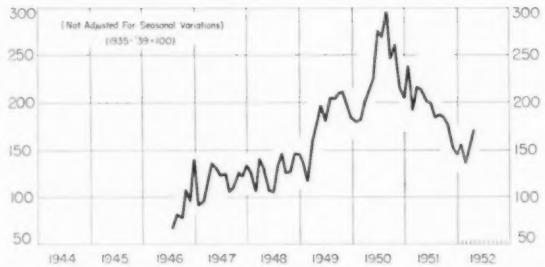
Relaxation of construction materials controls and a continued strong retail trade level have had their influence on new commercial construction. In May contract awards for this type of construction were up 40% from April and 151% ahead of a year ago.

RETAIL FURNITURE STORES NET SALES



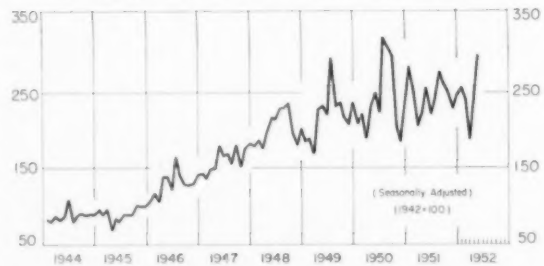
Strong promotional activity together with elimination of credit regulations found reflection in a net increase of 25% in furniture store sales (adjusted) from April to May to a level 25% ahead of a year ago.

NEW PASSENGER CAR REGISTRATIONS



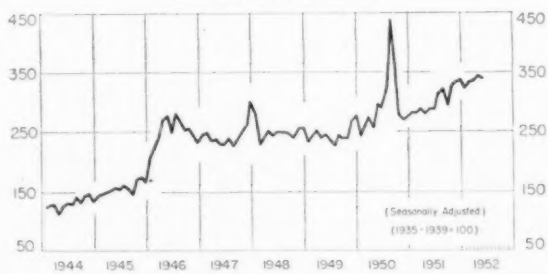
Spring seasonal revival increased registrations of passenger automobiles in April 11% over March, but April this year was still 21% under a year ago. Field indications point to continuance of good sales in May.

DEPARTMENT STORES - INSTALMENT SALES



Strong revival in major household appliances during May and the demise of Regulation W resulted in a gain in instalment sales of 24% over April (adjusted) to a level 16% above a year ago.

LIFE INSURANCE SALES



Although sales of life insurance in this District in May dropped back 1% (adjusted) from April, the year-to-year gain of 17% is a substantial gain. The strong upward trend in sales has been persistent for a year and a half.

Cotton Takes A Look At Its Customers

More or less continuous inroads in the consumption of cotton have been indicated by both well informed and less informed individuals ever since the rayon industry became a growing force in the textile economy. What inroads in the utilization of cotton would have occurred had there been no synthetic fibers will, of course, never be known. But the facts are that from 1939 to 1950 total cotton consumption increased 31.1%. Use of cotton in apparel rose 29%; household uses increased 48%; industrial uses gained 6%, while exports expanded 31% as is shown in the accompanying table, and chart on the front page.

TABLE I—SOURCES OF COTTON USAGE—1950

	Thou. Bales	% of Total	% chg. from 1939
Apparel	2,944	30.5	+ 30
Household Textiles	2,431	25.2	+ 48
Industrial Uses	2,589	26.8	+ 7
Exports (Mfrs. & semi-mfrs.)	775	8.0	+ 31
Unaccounted	917	9.5	+110
Total	9,656	100.0	+ 31

Sources: "Cotton Counts Its Customers," and U. S. Dept. of Commerce.

Not only has cotton consumption shown these changes in the two mentioned years, but over the entire period the compound rate of growth shows that apparel and household utilization have been respectively at 1.9% per annum and 3.3% per annum. While the industrial consumption of cotton had shown a rise between 1939 and 1950, the important parts of this consumption are pretty clearly indicated to be entering a declining trend. From the more important sources of industrial consumption it is estimated that the over-all decline would be reasonably calculated at about 2% per annum. If domestic consumption were to follow these lines of growth, total domestic utilization would be rising in future years at a compound rate of 1.2% per annum.

It is not the purpose of this study to forecast where cotton consumption will be several years hence but to show in an empirical way what has been happening to its various sources of consumption which may give some clue of the future growth outlook in cotton products turned out by the domestic cotton textile industry.

The data used in this study are the figures published by the National Cotton Council in its publications "Cotton Counts Its Customers." The National Cotton Council has not fully covered the total consumption of cotton as reported by the Bureau of Census nor has it attempted to cover exports of cotton manufactures and semimanufactures. Estimates of these latter have been included with the Cotton Council's total count.

Consuming Outlets

Four broad groups of consumers make up the total demand for cotton manufactures. These groups are as follows: Apparel, household textiles, industrial textiles, and exports. In 1950, the latest year of record, the importance of the three domestic consumption sources was fairly evenly divided. Apparel accounted for 30.5%; household textiles, 25.2%; industrial units, 26.8% and exports 8%, with 9.5% not accounted for. Cotton consumed in the manufacture of apparel is further divided into three related groups, namely: Men's, youths' and boys' wearing apparel; women's, misses' and juniors' wearing apparel; and children's and infants' wearing apparel. The male group is the most important segment of the apparel group accounting for 63% of the total apparel utilization in 1950 compared with 24% for the female group and 13% in the children's group.

Men's, Youths' and Boys' Wearing Apparel

Cotton utilized in men's, youths' and boys' wearing apparel between 1939 and 1950 increased 36%, and per capita consumption increased 25%. Shirts, trousers, underwear, hosiery, overalls and coveralls, gloves and coats and jackets accounted for 90% of total cotton consumed in this group of products. Real progress has been made by the cotton industry in such products as coats and jackets and trousers, whereas the industry has lost in the overall and coverall business, hosiery, overcoats, topcoats, and rainwear. Rather solid gains have been made in both shirts and in underwear despite a rather marked increase in the use of synthetics in these products.

Barring depressions, wars, or other major impeding factors, including shifts to other material, the projected line of growth at an annual rate of 3.3% in the use of cotton in these products would bring the total in 1955 to a level 11% ahead of 1950. This is not a forecast but a projection of the growth trend from 1939 to 1950.

TABLE II—COTTON CONSUMED IN SELECTED ITEMS OF MEN'S, YOUTHS' AND BOYS' WEARING APPAREL—1950

	Thou. Bales	% of Total	% chg. from 1939
Shirts	538	29.0	+ 39
Trousers	436	23.5	+127
Underwear	244	13.2	+ 24
Hosiery	141	7.6	— 3
Overalls and coveralls	130	7.0	— 44
Gloves	102	5.5	+ 26
Coats and jackets	74	4.0	+545
All other	189	10.2	+ 74
Total	1,854	100.0	+ 36

Source: "Cotton Counts Its Customers."

Women's, Misses', and Juniors' Wearing Apparel

In 1950, 702,000 bales of cotton were consumed in the manufacture of women's, misses' and juniors' wearing apparel which was 24% of the total apparel consumption

in that year. A gain between 1939 and 1950 amounted to 9% with 1950 being the first postwar year to exceed the 1939 total. Cotton, of course, went to war and its least essential uses were restricted during that period. Consumption, therefore, in women's wear declined more than 42% between 1941 and 1945, but the recovery between 1945 and 1950 amounted to 85%.

Women's dresses are the most important item in this group of products accounting for one-third of the cotton consumption for this category in 1950. Coats and jackets were the next in importance, accounting for 12%.

Outstanding in their progress in utilizing cotton in the industry are dresses, sportswear, coats and jackets, suits and skirts. These accounted for 54% of the 1950 consumption and rose 61% above 1939. Cotton dresses, the dominant factor in the industry, have become high style in recent years. Popularity has moved to such things as separates, dusters and two-piece dresses, all of which lend themselves readily to cotton fabrics. Since 1947 the use of cotton in dresses has nearly doubled. Products in this group which have shown a distinct downward trend in cotton usage are aprons and uniforms, overalls and coveralls, rainwear, nightwear, negligees and bed jackets and underwear and sweaters. Together, these accounted for 19.8% of total women's apparel in 1950, while their decline from 1939 amounted to 44%.

TABLE III—COTTON CONSUMED IN SELECTED ITEMS OF WOMEN'S, MISSES' AND JUNIORS' WEARING APPAREL—1950

	Thou. Bales	% of Total	% chg. from 1939
Dresses	233	33.2	+ 13
Coats and jackets	85	12.1	+844
Underwear	59	8.3	— 23
Foundation garments	53	7.5	+ 8
Nightwear, negligees and bed jackets	48	6.9	— 44
Hosiery	44	6.3	+ 29
Blouses, waists and skirts	34	4.8	— 13
All other	146	20.9	0
Total	702	100.0	+ 9

Source: "Cotton Counts Its Customers."

With such violent movements in the consumption of cotton in women's, misses' and juniors' wearing apparel in the period under review, it is difficult to determine the compound rate of growth that has taken place. However, from a point mid-way between 1939 and 1940 through a point somewhat below the 1950 level, an increase of .6% per annum is indicated. The rate of rising use in the past five years, on the other hand, would seem to indicate that a .6% rate of growth is too low and that a better level than projections would obtain.

Children's and Infants' Wearing Apparel

Consumption of cotton in the manufacture of infants' and children's wearing apparel has made rapid progress in the past eleven years with 1950 being 44% ahead of 1939. In this same period the increase of population of infants and children under fourteen years of age has been 29%. The most important sources of cotton consumption in children's and infants' wearing apparel are in underwear and dresses, which account for one-third of the group total with hosiery, nightwear, diapers and overalls and coveralls accounting for an additional 25%.

Cotton used in underwear accounts for nearly one-fifth of the group total and increased 32% between 1939 and 1950, somewhat better than the growth in child population. Cotton used in children's and infants' dresses, accounting for 14% of the group total, increased 17% between 1939 and 1950, a gain considerably slower than the growth in population. Undoubtedly synthetic fibers have gained a considerable share of this business.

Of the major products in this group, coats and jackets and overalls and coveralls are in the foreground. The growth in cotton utilization in these products has more than tripled between 1939 and 1950.

Products which have shown a decreased consumption of cotton between 1939 and 1950 in the children's and infants' apparel group include hosiery and suits and skirts. The decline in these has all been effected since 1946. These two groups accounted for 14% of the group total in 1950. Their decreases from 1939 was 38%.

The compound rate of growth of cotton used in children's and infants' wearing apparel over the past eleven years has been 3.4%. If this rate of growth were continued through 1955 consumption that year would be 19% over 1950.

TABLE IV—COTTON CONSUMED IN SELECTED ITEMS OF CHILDREN'S AND INFANTS' WEARING APPAREL—1950

	Thou. Bales	% of Total	% chg. from 1939
Underwear	75	19.3	+ 32
Dresses	55	14.2	+ 17
Hosiery	42	10.9	— 39
Nightwear	35	8.9	+ 19
Overalls and coveralls	31	8.0	+200
Diapers	32	8.2	+ 42
Playsuits	23	5.9	+ 68
All other	95	24.6	+330
Total	388	100.0	+ 44

Source: "Cotton Counts Its Customers."

Household Uses

Cotton usage in the manufacture of household textiles has been one of the strong factors in the industry. From 1939 to 1950 cotton consumed in the manufacture of these products rose 48% and accounted for one-fourth of all cotton consumption in 1950. Sheets, draperies and upholstery fabrics, and towels are the most important products in this group. Together they account for 53% of the household group. Products of somewhat lesser importance include rugs and carpets, bedspreads and blankets. These products together account for about one-fourth of the group total. Strong growth tendencies have been shown in sheets, pillow cases, towels, bed ticking, drapery and upholstery fabrics, bedspreads and

rugs and carpets. Downward trends are in evidence in blankets, tablecloths and napkins and curtains.

Taking household textiles as a group the compound rate of growth over the period 1939 through 1950 has been 3.3% per annum. If this growth is projected to 1955 the level of consumption would be 16% above 1950.

TABLE V—COTTON CONSUMED IN SELECTED ITEMS OF HOUSEHOLD TEXTILES—1950

	Thou. Bales	% of Total	% chg. from 1939
Sheets	525	21.6	+ 24
Draperies and upholstery	446	18.3	+112
Towels and toweling	314	12.9	+ 14
Rugs and carpeting	253	10.4	+267
Bedspreads	195	8.0	+ 95
Blankets and blanketing	166	6.8	— 2
All other	532	22.0	+ 36
Total	2,431	100.0	+ 48

Source: "Cotton Counts Its Customers."

Industrial Use

Cotton consumed for industrial purposes in 1939 amounted to 2,430,000 bales. By 1941 this usage had increased 37% to 3,334,000 bales. Between 1941 and 1949 practically all of the gain recorded earlier had been wiped out, but 1950 showed a gain of 6% over 1949 to bring the 1950 amount 6% ahead of 1939.

The most important consumer in the industrial group is the automobile industry which in 1950 accounted for 29% of the cotton consumed by industrial users, with tire cords accounting for 20 of the 29 %, leaving 9% for other automotive uses. Cotton bags accounted for 14% of the industrial usage, but no other single industry accounted for as much as 8%. Other uses accounting for 5% or more include awnings, tents, tarpaulins, cordage and twine, insulation and shoes.

The two most important products in the industry, tire cord and cotton bags, are in a declining trend owing to competition of high tenacity rayon, paper and burlap. The consumption of cotton in these two products in 1950 totaled 882,000 bales, a drop of 21% from 1939. Partly offsetting this has been increased automobile use in other than tire cord. In 1950 the automobile industry used 225,000 bales for other purposes than tire cord, a gain of 161% over 1939. Other decreases of note include cordage and twine, industrial thread, laundry supplies and shoes.

Substantial growth, on the other hand, has been witnessed in eleven industries only two of which account for more than 5% of the industrial total. These include such things as coated abrasives, awnings, tents, etc., cheese coverings, filter cloths, fishing supplies, friction tape, insulation, mattress felts, medical supplies and a score of miscellaneous uses. Together these eleven industries in 1950 accounted for consumption of 977,000 bales, a gain of 125% over 1939.

Downward trends in the two major products and a few of the lesser products are sufficiently strong to carry the entire industrial group downward, probably for several years. This is particularly true in cotton tire cord where it is the avowed policy of the tire companies to utilize high tenacity rayon or nylon as quickly as it becomes available, but the growth in the eleven small industries is sufficiently impressive to give hope in this group of products several years hence.

TABLE VI—COTTON CONSUMED BY SELECTED INDUSTRIAL USERS—1950

	Thou. Bales	% of Total	% chg. from 1939
Automobiles	749	28.9	+ 8
Tire cord	524	20.2	— 14
Other automotive materials	225	8.7	+161
Bags	357	13.8	— 29
Insulation	196	7.6	+138
Awnings, tents & tarpaulins	175	6.8	+ 56
Cordage and twine	157	6.1	— 34
Shoes	145	5.6	— 8
Medical supplies	106	4.1	+ 44
Laundry supplies	88	3.4	— 32
Mattress felts	85	3.3	+242
Belts, machinery	81	3.1	+ 20
All other	450	17.3	+ 27
Total	2,589	100.0	+ 6

Source: "Cotton Counts Its Customers."

Exports

Exports of cotton manufactures and semimanufactures (converted into bales and making no allowance for cotton waste in the manufacturing process) have been in a rather marked up-trend during the period under review. Estimates place the cotton utilized in export goods and yarns at 775,000 bales in 1950, off 30% from 1949 but up 31% over 1939.

Exports, particularly in the postwar years, had been substantially augmented by the inability of many of the world's normal cotton exporting nations to get back into production following the war. In addition to the prewar exporting nations, India has also become a net exporter rather than an importer. In the past year or two, the postwar cotton goods exporters moved back into the export market in a big way, and the results were strongly felt in 1950 on the American export volume.

The general concensus is that the United States exports of cotton goods and yarns will not be competitive with those of foreign countries and as a consequence, the export level must fall. Export experience, however, in 1951 and thus far in 1952 would indicate that this has not yet happened.

B.P.C.—A.H.D.

Bank Capital—Some Thoughts on Adequacy

Bankers and supervisory authorities have shown an increased interest, in recent months, in the role of capital in sound banking and in the measures that may be used to determine capital adequacy. Interest has been stimulated by a persistent long-term decline in the relationship of bank capital funds to total deposits and to total assets. This raises some pertinent and, of course, debatable questions: What is the significance of the decline? Does it indicate a semi-concealed weakness in the banking system? Or, has the nature of banking—and particularly banking assets and liabilities—changed so that historically acceptable concepts and ratios are less meaningful than traditional analysis was wont to make them?

In a subject of this type, categorical answers are almost impossible. A review of conditions in the Fifth District, however, and a frank discussion of some of the problems involved may be helpful to all concerned—bank owners and managers, bank supervisors, and the public they all serve.

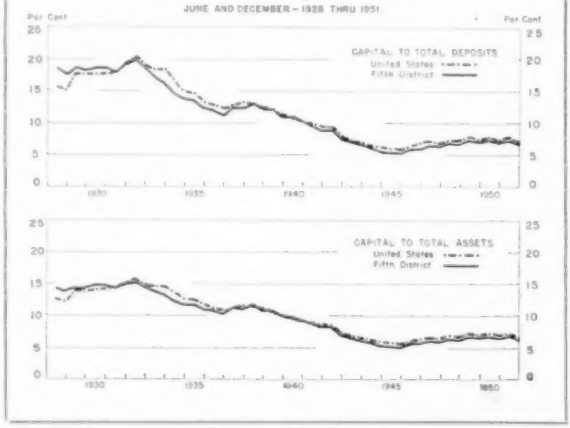
Total capital accounts of all member banks at the end of 1951 were almost twice their 1928 level. In the same period, however, total deposits and total assets increased nearly fourfold. As a consequence the ratios of captial funds to total deposits and to total assets at the end of 1951 were less than half their level of two decades ago. As shown in Chart I, these two capital ratios for Fifth District member banks closely paralleled the average for all member banks in the nation. Although the ratios improved slightly in the early postwar years, the improvement was not substantial enough to offset the sharp decline from the early '30's.

For many years many banking authorities have recognized that generalized capital ratios are chiefly useful as screening devices, that is, indicating those banks below a norm, arrived at through banking experience, which should be examined in more detail to determine if the recommendation to increase capital should be made. Adequacy of capital upon more detailed examination is usually found to rest upon several factors: (1) the banking needs of the community, (2) the skill of management, and (3) the degree of risk in the various sections of the asset portfolio—in other words, flexibility and quality of loans and investments.

Chart I

SELECTED CAPITAL RATIOS OF MEMBER BANKS
UNITED STATES AND FIFTH DISTRICT

JUNE AND DECEMBER – 1928 THRU 1951



Several Types of Ratios Have Been Used

The first ratio commonly used to judge capital adequacy was that of total capital to total deposits. For many years the acceptable minimum was $1 of capital to each $10 of total deposits—in other words, the traditional 1-10 ratio. This ratio, both for all member banks in the United States and those in the Fifth District, has been below the 1-10 minimum throughout the past decade (see Chart I).

Another early ratio (and one still relied upon by some supervisory authorities) was that of capital to total assets. At the end of 1951 the average of this ratio for all member banks and for those in the Fifth District was about 7%, roughly one-to-fourteen. The averages are about one-half their 1928 level.

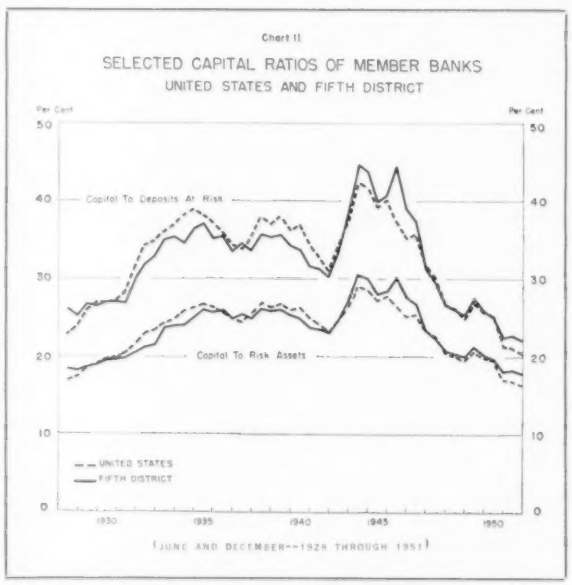
The trend among supervisory authorities has been toward emphasizing capital ratios which incorporate the varying degrees of risk found in a bank's assets. In a particular bank, detailed examination permits a reasonable separation of assets by the degree of risk. In the absence of detailed examination, cash and U. S. Government securities are generally classed as riskless assets. On this basis, "risk asset" ratios have been formulated which are thought to be more reliable as measures of capital adequacy than those which take no account of the risk element in assets. The most common "risk asset" ratio is that of total capital accounts to "risk assets" (total assets less cash and U. S. Government securities).

This ratio for all member banks in the United States and for those in the Fifth District is plotted in Chart II. No acceptable minimum has been universally established but preferences range from around 15% up to 25%. As shown in Chart II, this ratio for member banks in the United States and in the Fifth District has been below the 25% level since 1946 but it has not yet gone below the 15% level.

Another type of "risk asset" ratio used by some supervisory authorities involves adjusting capital to eliminate fixed assets. Since fixed assets are considered the most non-liquid of all, the ratio, in effect, sets aside enough capital to cover them and relates the remaining capital to "risk assets." For this ratio, "risk assets" are total assets less fixed assets and less cash and Governments.

The most recent capital ratio to be recommended as a general standard is that of the Committee on Risk Asset Ratio Study of the New York State Bankers Association. The Committee has recommended the ratio of capital funds to "deposits-at-risk," defining "deposits-at risk" as total deposits less riskless assets which consist of cash and U. S. Government securities. The Committee points out that, for the individual bank where detailed examination is possible, "riskless" assets should be more carefully determined with consideration being given to the credit worthiness of the borrower, the maturity of the obligation, and the presence of governmental guarantees. This ratio is plotted in Chart II for all member banks in the United States and for those in the Fifth District.

Any ratio which eliminates cash and U. S. Government securities will, of course, fluctuate with the relative importance of these assets among the total. The sharp decline in the "risk asset" and "deposits-at-risk" ratios since 1945 reflects the changing nature of banks' assets over the postwar years. "Risk assets," principally loans and discounts and securities other than Governments, have been rapidly growing in relative importance over the period while cash and U. S. Government securities have been declining.



When one compares the banking system of today with that of two decades ago, he is immediately struck by changes in its asset structure. The present asset structure of banks is, in general, far more liquid than it was two decades ago. Banks hold a far larger percentage of their assets in cash and direct obligations of the Federal Government. In addition, many of their commodity, real estate, and other loans and securities are Federally insured or guaranteed. The asset structure of Fifth District member banks is compared with their total deposits in Chart III. Cash and Government securities covered almost 70% of total deposits in December 1951 while covering only 30% in 1928. Of equal importance is the total coverage. As shown in Chart III, cash plus total earning assets were 20% greater than total deposits in 1928. In 1951 they were only 6% greater than total deposits.

Despite this greater liquidity of the banking system, there is continuing sober discussion of capital requirements. Unfortunately, whatever the ratio or combination of ratios proffered or favored, apparently no one has as yet satisfactorily defined "adequate capital." Even though ratios are considered merely as indicants of need for detailed analysis in individual cases, and all factors are carefully weighed, no means has been found for exact determination as to whether or not capital is adequate, deficient, or in excess of actual needs. This is not surprising, for the simple reason that in reality the determination of capital adequacy—as with most problems in business life—is at base a matter of judgment.

Adequacy in the Practical Sense

The most important decisions regarding a bank's capital can only be reached through sound judgment, arrived at by careful analysis, perhaps including mathematical formulae but not restricted to neat ratios or figures. When, in this manner, it has been decided that a particular bank's capital is inadequate, this bank should be more eager to increase its capital than the supervisory authorities to have it do so—if for no other reason than that the bank is presumed to want to provide sound protection to its depositors. It goes without saying that it should not take unnecessary risks or try to skim along with a small capital account, trusting that neither losses nor other pressures will threaten the bank's position. Furthermore, a bank with inadequate capital funds may be unable to serve its community properly. Actually, asset distribution of some banks in this category, through high liquidity, small loan portfolios and heavy reliance upon Government guaranties and insurance, is associated with their thin capital positions.

Under such circumstances, it is natural to ponder such questions as: Are the credit needs of the community being met? Is significant reliance upon Government guaranties and insurance contrary to the best interest of the bank and the banking system?

This fosters the conclusion that there must be some point below which capital ratios should not drop, even though there is no evident risk pressure—which may be only another way of saying that there is a point to which proprietary interest should not decline if the private banking system is to be adequately justified or defended.

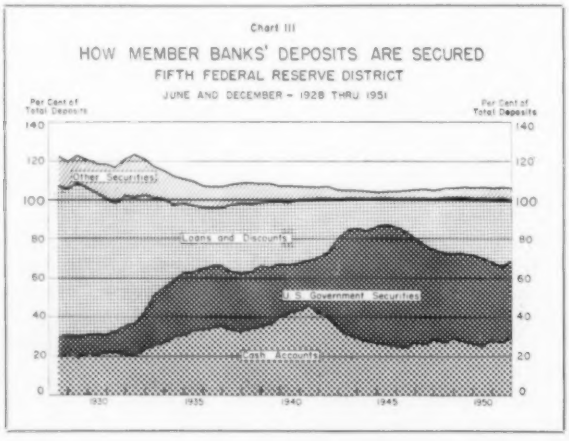
Surely, when any number of banks willingly permit capital to remain at a difficult - to - defend low point, even though maintaining highly liquid positions and relying upon Government guaranties and insurance of a significant portion of their assets, they are subject, and the banking fraternity is subject, to the charge that little or no private risk is being taken and, possibly, the charge that there is less justification for banking as a private enterprise.

What conclusions can reasonably be reached with respect to bank capital? According to supervisory experience, low capital in itself is not necessarily and at all times an indication of significant exposure. This is true because of liquidity, reliance on Government guaranties, and low volume of risk assets. Conversely, supervisors find some banks with relatively high total capital accounts which, at the same time, are subject to significant exposure. This is clearly due to high volume of loans which, upon analysis, exhibit relatively high degrees of risk.

It seems proper to suggest, first, that careful analysis of all factors in individual cases will provide a practical means for arriving at an appropriate capital level—even though the exact amount cannot be defined. Second, banks with apparently low capital should analyze realistically their particular situation in order to determine whether or not additional capital can and should be raised. Important in this determination are: (1) possible exposure to depositors; (2) the bank's ability to serve its community properly; (3) the influence of restricted credit-granting because of the current capital position; (4) the amount of reliance upon guaranties and insurance of assets; and (5) the proprietary interest—the private money at risk—and its level in relation to liabilities so that refutation of possible charges that funds are not sufficient to justify the enterprise may be made.

In spite of general assertions of difficulty in selling new increments of bank stock, a number of banks in the Fifth District have not only done so but such sales have apparently been accomplished without great difficulty and more stock could have been sold. Furthermore, such sales have apparently been on an equitable basis. It therefore seems logical to conclude that banks needing new capital should take steps to provide such funds.

In any event, resort to sale of stock represents an appeal to an eminently proper source of required capital funds, namely, private capital—normally in the bank's own community.



Business Conditions and Prospects

The trade level in the District, as well as in the nation, moved upward sharply in May, after seasonal correction, and its effects were strongly felt in the soft-goods industries of this District. District department store sales in May were at the highest seasonally adjusted level of the year and exceeded by only three months in 1951. Indications are that department store sales may have resumed an upward trend after holding at a flat level during the first four months of the year.

Total nonagricultural employment in the District during April was at an all-time peak for that month despite a further small decline in the numbers employed in the manufacturing industries.

The principal effects of the steel strike in the District thus far have been to reduce the output of bituminous coal and to cause lay-offs on the railroads. Continuation of the strike would bring repercussions in a number of defense or defense-supporting industries, in construction, and further unemployment in the coal and transportation industries.

The improved trade level in soft goods, together with the inventory correction in distributive channels nationally, has at last found its reflection in the textile industries of the District. This has not shown up in the May statistics but was in evidence in late May and in June in the volume of forward purchases of basic textiles and many of their fabricated products.

Visible forms of saving have continued to increase despite the rather substantial pick-up in retail sales during May. Time deposits of member banks rose slightly less than 1% from April 30 to May 28 with the latter date 7.5% ahead of a year ago. Deposits in mutual savings banks in Maryland rose one-half million from April to May; at $408.5 million, the gain was 3% over a year ago.

Sales of life insurance in the District (adjusted) were down 1% from April to May but 17% ahead of a year ago. In the first five months of 1952 the gain was 18% over a year ago. In the first five months of 1952 sales of Series E savings bonds were 5% over a year ago while redemptions of Series A-E were down 4%. Net redemptions of A-E bonds amounted to $45 million in the first five months compared to $75 million during the same period of 1951. Sales of Series F, G, J, and K during the first five months were 41% under a year ago, but the May figure, mainly J and K bonds, was up 55% over a year ago.

Farm income in the District in the first four months of 1952 was 11% higher than in those months last year, with crop income up 25% and livestock and livestock products' income up 4%. Crop conditions on June 1 were estimated somewhat better than a year earlier, with many of the improvements occurring in the Carolinas where adverse weather last year retarded crops. Growing conditions during June have been handicapped by lack of moisture.

Total loans of the weekly reporting banks in the District in mid-June were within $4 million of the all-time peak reached at the end of December. This was a consequence of a less-than seasonal drop in commercial, industrial, and agricultural loans and a continued uptrend in real estate and "other" loans. Demand deposits of individuals, partnership, and corporations on June 18 were within $26 million of the year's peak, but $175 million higher than in the same week last year.

The value of military procurements and construction contracts awarded in the Fifth District from July 1950 through March 1952 has amounted to $2,985 million or 5.3% of the national total. In the first quarter of 1952 these awards amounted to $333 million or 3.5% of the national total. Of $1,730 million of military construction contracts awarded between July 1951 and March 1952, the Fifth District received $165 million or 14.8%.

Building permits in thirty cities of the District in May were valued at $31.2 million or practically the same figure as a year ago. In the first five months of 1952, however, permits in these cities were at $138.4 million, a drop of $19 million or 12% below a year ago. Twelve cities during May showed permits valued higher than a year earlier, with Norfolk, Va., and Columbia, S. C., showing the most substantial gains. During May listed military construction in the District has exceeded $31 million, and as of late June a figure nearly as large had been awarded.

Certificates of necessity between May 2 and May 29 had been granted in this District for a total amount of constructions of $43 million. From May 30 through June 12 certificates in the amount of an additional $43 million had been approved.

Trade

Due either to causal connection or otherwise, instalment sales of reporting department stores rose 24% after seasonal correction from April to May following the demise of Regulation W. Instalment sales of these stores in May were up 16% over a year ago.

Total department store sales rose by 7% from April to May (after seasonal correction) to a level 5% ahead of 1951. Department store stocks (adjusted) rose 4% from April to May but were 4% under a year ago. It is interesting to note that in May sales of major household appliances in this District showed a sharp gain over a year ago, but that the January-May total was down nearly one-fourth from a year ago. Most hard-goods lines in the first five months of the year have run substantially

below a year ago, while total store sales show a January-May loss of only 1%, thus indicating substantial strength in the soft-goods lines.

Retail furniture stores experienced a strong revival in sales during May with a seasonally adjusted gain over April of 25%; sales were likewise 25% ahead of those in May 1951. Substantial improvement is noted in both furniture and household appliances—due in part to strong promotional activity. The household appliance stores show a strong seasonal rise in sales of 30% over April to a level within 1% of a year ago.

Adjusted sales of wholesalers show mixed trends from April to May but all lines were higher than a year ago with the exception of dry goods, groceries, and paper. Outstanding in their year-to-year gains were automotive supplies, electrical goods, and industrial supplies. Sales of passenger cars and trucks in April were up seasonally from March, 11% and 32% respectively. In both cases losses from a year ago were cut substantially.

Textiles

Adjusted cotton consumption in May rose 3% from April but continued 11% under a year ago. Operations in the cotton textile industry, however, as represented by spindle hours operated, continued to decline with the May figure (adjusted) being 7% under April and 20% under a year ago.

Outward appearances seem to indicate that May marked the bottom of the current recession in the textile industry. Late in May and thus far in June a substantial amount of forward coverage of goods and yarns has been effected—in fact, a large portion of third quarter production has been sold and considerable selling has been done for fourth quarter output. This is the first time in nearly a year and a half that forward purchases of consequence have been made.

Although the bulk of the textile industry has scheduled a one week vacation for early July, a number of plants planned to close on the Fourth of July only. Many mills are back on a regular five-day week and some are operating six days. A number, however, are still operating less than five days.

Business in synthetics has improved substantially with total rayon and acetate shipments in May up 14% from April. The chief improvement came in acetate shipments which had been most depressed. Recalls of workers previously laid-off have been made at several plants throughout the District but employment is not back to normal levels.

Production levels in both full-fashioned and seamless hosiery mills has improved more than seasonal proportions. The price structure in the industry, however, though holding steady, has yet to show strength.—B. P. C.

DEBITS TO INDIVIDUAL ACCOUNTS
(000 omitted)

	May 1952	May 1951	5 Mos. 1952	5 Mos. 1951
Dist. of Columbia				
Washington	$1,012,349	$1,059,355	$ 5,523,783	$ 5,288,769
Maryland				
Baltimore	1,321,076	1,265,547	6,342,427	6,157,577
Cumberland	24,798	24,925	127,259	122,495
Frederick	22,721	22,010	112,930	101,220
Hagerstown	36,743	32,031	177,057	159,120
North Carolina				
Asheville	60,104	59,543	308,156	294,666
Charlotte	345,146	326,330	1,733,957	1,692,747
Durham	103,912	98,518	513,431	486,684
Greensboro	110,333	100,554	540,078	506,987
Kinston	18,868	15,421	94,922	79,109
Raleigh	172,569	147,510	900,987	778,126
Wilmington	47,147	42,755	225,695	207,404
Wilson	16,589	14,835	89,958	91,944
Winston-Salem	168,734	159,525	833,459	814,504
South Carolina				
Charleston	87,841	76,451	394,499	369,894
Columbia	145,624	128,618	723,895	622,182
Greenville	104,254	106,391	519,246	557,110
Spartanburg	68,270	61,189	342,157	334,823
Virginia				
Charlottesville	27,625	27,492	137,660	133,449
Danville	28,982	28,763	167,122	164,675
Lynchburg	47,032	44,581	228,343	232,904
Newport News	48,658	44,709	238,276	207,500
Norfolk	255,028	216,333	1,222,660	1,057,249
Portsmouth	28,118	24,357	140,240	123,949
Richmond	583,617	545,818	2,847,357	2,677,409
Roanoke	118,307	117,214	581,216	560,086
West Virginia				
Bluefield	46,175	45,061	252,145	233,941
Charleston	176,871	159,615	854,215	754,288
Clarksburg	33,543	35,035	185,730	173,378
Huntington	74,823	67,888	368,479	333,050
Parkersburg	30,986	32,127	152,650	150,501
District Totals	$5,366,843	$5,130,501	$26,879,989	$25,467,740

50 REPORTING MEMBER BANKS—5TH DISTRICT
(000 omitted)

ITEMS	June 18, 1952	Change in Amount from May 14, 1952	Change in Amount from June 13, 1951
Total Loans	$1,209,213**	+ 12,244	+ 29,702
Bus. & Agric.	563,627	— 6,275	— 11,930
Real Estate Loans	246,914	+ 1,231	+ 6,350
All Other Loans	414,449	+ 17,336	+ 36,839
Total Security Holdings	1,831,601	+ 6,355	+260,395
U. S. Treasury Bills	268,804	+ 4,258	+149,909
U. S. Treasury Certificates	165,236	— 4,768	+165,236
U. S. Treasury Notes	275,629	— 10,852	— 92,046
U. S. Treasury Bonds	889,486	+ 12,914	— 30,559
Other Bonds, Stocks & Secur.	232,446	+ 4,803	+ 67,855
Cash Items in Process of Col.	280,803	— 13,437	+ 14,266
Due From Banks	188,274*	+ 14,872	— 37,460
Currency and Coin	74,295	— 4,409	— 152
Reserve with F. R. Banks	589,465	+ 35,075	+ 45,387
Other Assets	53,702	— 1,408	— 2,267
Total Assets	$4,227,353	+ 49,292	+309,871
Total Demand Deposits	3,264,230	+ 59,675	+230,690
Deposits of Individuals	2,429,122	+ 44,294	+137,915
Deposits of U. S. Government	120,716	+ 13,029	+ 27,521
Deposits of State & Local Gov.	190,057	— 1,355	+ 11,875
Deposits of Banks	456,218*	— 1,275	+ 37,289
Certified & Officers' Checks	68,117	+ 4,982	+ 16,090
Total Time Deposits	650,736	+ 400	+ 42,670
Deposits of Individuals	571,314	+ 426	+ 19,372
Other Time Deposits	79,422	— 226	+ 23,298
Liabilities for Borrowed Money	21,600	— 9,200	+ 19,800
All Other Liabilities	32,069	— 2,213	+ 6,129
Capital Accounts	258,718	+ 630	+ 10,582
Total Liabilities	$4,227,353	+ 49,292	+309,871

*Net figures, reciprocal balances being eliminated.
**Less losses for bad debts.

SELECTED FIFTH DISTRICT INDEXES

AVG. DAILY 1935-39=100—SEASONALLY ADJUSTED

	May 1952	Apr. 1952	May 1951	% Chg.—Latest Mo. Prev. Mo.	% Chg.—Latest Mo. Yr. Ago
Automobile Registration*	....	169	202	+11	—21
Bank Debits	455	455	430	0	+ 6
Bituminous Coal Production	140	134	159	+ 4	—12
Construction Contracts	504	506	2773	0	—82
Business Failures—No.	45	66	45	—32	0
Cigarette Production	238	233	253	+ 2	—6
Cotton Spindle Hours	129	139	162	— 7	—20
Department Store Sales**	116	108	111	+ 7	+ 5
Electric Power Production	....	380	330	+ 5	+14
Manufacturing Employment*	....	151	150	— 1	+ 1
Retail Furniture: Net Sales	225	180	180	+25	+25
Life Insurance Sales	339	343	289	— 1	+17

*Not seasonally adjusted.

**1947-1949=100. Back figures available on request.

WHOLESALE TRADE

LINES	Sales in May 1952 compared with May 1951	Sales in May 1952 compared with Apr. 1952	Stocks on May 31, 1952 compared with May 31, 1951	Stocks on May 31, 1952 compared with Apr. 30, 1952
Auto supplies (8)	+11	+29	+ 4	— 2
Electrical goods (4)	0	— 2	....	....
Hardware (9)	— 3	+ 1	—10	—11
Industrial supplies (16)	— 4	+ 5	+ 3	— 3
Drugs & sundries (13)	+ 2	— 7	+ 1	— 2
Dry goods (14)	— 6	— 8	—20	— 2
Groceries (55)	+ 1	0	+ 4	— 2
Paper & products (6)	—15	— 8	....	....
Tobacco products (10)	+ 4	+ 1	+ 9	0
Miscellaneous (79)	+ 9	— 6	—15	+ 1
District Totals (204)	+ 3	— 3	—10	— 2

Number of reporting firms in parentheses.

Source: Department of Commerce.

DEPARTMENT STORE OPERATIONS

(Figures show percentage changes)

	Rich.	Balt.	Wash.	Other Cities	Dist. Totals
Sales, May '52 vs May '51	+ 9.6	+ 4.7	+ 4.2	+ 9.9	+ 7.7
Sales, 5 mos. '52 vs 5 mos. '51	+ 2.0	+ 1.4	— 2.5	+ 0.7	+ 0.8
Stocks, May 31, '52 vs '51	—21.0	— 9.5	— 3.7	— 7.4	— 7.2
Outstanding Orders, May 31, '52 vs '51	+ 3.8	—16.7	—16.5	+ 9.2	—10.5
Current receivables May 1 collected in May 1952	25.5	48.2	45.7	40.9	41.1
Instalment receivables May 1 collected in May 1952	14.2	14.6	17.6	19.0	16.2

	Md.	D.C.	Va.	W. Va.	N.C.	S.C.
Sales, May '52 vs May '51	+4.8	+4.2	+11.2	+ 11.0	+12.3	+11.0

REPORT ON RETAIL FURNITURE SALES

Fifth Federal Reserve District

May 1952

STATES	Percentage comparison of sales in periods named with sales in same periods in 1951: May 1952	5 Mos. 1952
Maryland (7)	+20	+ 5
Dist. of Col. (7)	+ 4	— 7
Virginia (18)	+19	+ 7
West Virginia (10)	+19	+21
North Carolina (13)	+32	+12
South Carolina (6)	+20	0
District (61)	+15	+ 2
INDIVIDUAL CITIES		
Baltimore, Md. (7)	+20	+ 5
Washington, D. C. (7)	+ 4	— 7
Richmond, Va. (6)	+25	+13
Charleston, W. Va. (3)	+17	+29

Number of reporting firms in parentheses.

BUILDING PERMIT FIGURES

	May 1952	May 1951	5 Mos. 1952	5 Mos. 1951
Maryland				
Baltimore	$ 7,427,355	$ 6,949,930	$ 26,091,120	$ 35,071,145
Cumberland	35,225	53,550	128,875	377,485
Frederick	143,710	277,095	1,198,473	810,635
Hagerstown	130,290	202,415	638,088	845,088
Salisbury	193,695	152,066	587,356	874,544
Virginia				
Danville	399,626	519,797	2,859,260	1,245,722
Lynchburg	318,329	287,558	1,030,580	1,852,928
Newport News	736,042	100,393	5,654,490	697,529
Norfolk	4,817,664	750,275	10,601,838	9,375,708
Petersburg	154,195	769,614	776,994	1,557,108
Portsmouth	214,090	237,405	5,106,997	3,669,515
Richmond	1,377,969	1,440,548	7,791,859	8,519,252
Roanoke	793,468	1,104,546	4,359,270	7,857,898
West Virginia				
Charleston	917,518	388,178	2,976,184	2,232,436
Clarksburg	42,492	151,880	360,197	464,490
Huntington	404,210	1,044,042	1,772,175	3,510,594
North Carolina				
Asheville	259,949	661,388	1,496,835	3,421,188
Charlotte	1,657,384	1,183,284	10,376,471	10,547,411
Durham	582,897	362,079	3,926,568	2,601,503
Greensboro	504,035	807,482	2,978,668	3,731,096
High Point	445,565	299,325	1,436,230	1,544,714
Raleigh	1,019,650	1,529,305	7,536,283	6,181,525
Rocky Mount	227,233	179,980	1,527,413	1,424,186
Salisbury	134,131	152,246	1,057,168	691,591
Winston-Salem	516,674	1,079,220	4,109,105	5,184,424
South Carolina				
Charleston	162,602	214,873	638,637	802,459
Columbia	3,123,928	740,125	5,489,244	5,170,452
Greenville	339,645	3,244,670	4,392,805	6,122,229
Spartanburg	730,198	164,050	1,340,967	526,240
Dist. of Columbia				
Washington	3,397,968	6,633,774	20,165,880	30,181,998
District Totals	$31,207,737	$31,681,093	$138,406,030	$157,093,605

ADDITION TO PAR LIST

The Bank of Madison, Madison, North Carolina, has agreed to remit at par effective July 1, 1952, for all checks drawn on it when received from the Federal Reserve Bank. The Bank of Madison is located in the Charlotte Branch territory, and the combined A.B.A. transit number-check routing symbol is $\frac{66\text{-}388.}{531}$

MR. HUGH LEACH

National Summary of Business Conditions

Compiled by the Board of Governors of the Federal Reserve System

Industrial production continued to decline in May and June as labor disputes cut output sharply in steel and some other lines. Construction volume was maintained close to record levels in May, and retail sales, mainly of durable goods, expanded. Consumer prices rose further and were close to the January high. Wholesale commodity prices changed little in May and declined somewhat in June.

Industrial production

The Board's preliminary seasonally adjusted index of industrial production in May was 214 per cent of the 1935-39 average, down 2 points from April and 8 points from last February and May 1951. Reflecting mainly the work stoppage at steel mills, a sharp further decline is indicated for June.

May output of durable goods was slightly lower than in April owing largely to a labor dispute in the lumber industry and to small further curtailments in activity in most industrial equipment lines. Production of trucks and passenger automobiles held steady, while output of major household durable goods declined somewhat further. As a result of the strike, steel production is estimated at about 20 per cent of rated capacity in June, as compared with 90 per cent in April and May—also affected by work stoppages—and with 102 per cent in March. Reflecting expanded supplies of aluminum and copper, the NPA in mid-June substantially increased the amounts of these metals that small users may obtain beginning in the third quarter, without requiring direct allocations.

A decrease of about 2 per cent in nondurable goods production in May resulted mainly from work stoppages at oil refineries, which were terminated by early June. Over-all activity at textile mills showed an important gain, while output of most other nondurable goods continued at earlier levels.

Minerals production declined in May and June as coal and crude petroleum output was reduced owing partly to the steel and oil refining disputes. Work stoppages resulted in a sharp curtailment of iron ore mining in June.

Construction

Value of construction contract awards in May continued at the very high April level as awards for private construction increased further, offsetting the first decline this year in total public awards. The number of housing units started totaled 107,000 as compared with 108,000 in April, and 101,000 in May 1951. Value of new construction work put in place during May was a record for the month, as was each preceding month this year.

Employment

Seasonally adjusted employment in nonagricultural establishments in May continued at 46.5 million, the same level as a year ago. The average factory work week at 40 hours was slightly above the reduced April level; average hourly earnings showed little change. At 1.6 million in May, the number unemployed was unchanged from a month earlier and a year ago.

Distribution

Seasonally adjusted sales at department stores, which had increased moderately in May, continued to rise during the first two weeks in June. The rise reflected a less than seasonal decline in apparel sales and a marked upward shift in sales of appliances and television which had reached a low point in April. Sales by automotive dealers rose substantially further in May. Pickup in automotive and household durable goods sales reflects in part the May 7 suspension of credit controls under Regulation W.

Commodity prices

The general level of wholesale commodity prices declined somewhat in June. Wheat prices declined as reports indicated a near record crop this year, one-third above last year, and there were decreases in prices of livestock. Prices of zinc were reduced 23 per cent and the previously announced reduction in the RFC resale price for rubber became effective. Meanwhile price ceilings on imported copper were suspended, lead prices were raised, following reductions in April and May, and prices of raw cotton and textile products advanced.

The consumers price index advanced .2 per cent in May, to about the peak level of January 1952. Rents and prices of foods and miscellaneous services increased while apparel and housefurnishings were reduced further.

Money and credit

Bank credit outstanding increased somewhat during the latter part of May and early June, reflecting mainly bank purchases of U. S. Government, corporate, and municipal securities. Seasonal repayments of loans by commodity dealers and food, liquor, and tobacco manufacturers continued, but in smaller volume. In mid-June there was a sharp expansion in business borrowing from banks associated with quarterly income tax payments.

The total money supply increased in late May and early June owing largely to the bank credit expansion. Demand, time, and currency holdings of businesses and individuals expanded. The turnover of demand deposits outside New York City rose in May.

Bank reserve positions were tight up to mid-June when they eased temporarily, principally as a result of seasonal Treasury operations and some increase in Federal Reserve credit outstanding.

Security markets

In the third week of June common stock prices regained the high level attained in the last week of January. Yields on Treasury bills increased steadily in late May and early June, and following a sharp decline in the mid-month, rose again to near the discount rate. Yields on certificates and notes increased while bond yields moved irregularly. On June 10 the Secretary of the Treasury announced the offering for cash of an intermediate bond in the amount of $3.5 billion, or thereabouts, and the offering in exchange for the certificates maturing July 1, 1952 of an 11-month 1⅞ per cent certificate maturing June 1, 1953. The new bond, which was a 2⅜ per cent issue to mature in 1958, was heavily oversubscribed, and allotments of $4.2 billion were made by the Treasury.